

# WORKING CAPITAL FUND

## FY 2002 Third Quarter Report

### I. Relation of Earnings to Expenses

- \$ Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.
- \$ The Fund experienced net earnings of \$3.0M (4.6%) on \$64.9 M in earnings in the Third Quarter of FY 2002. The overall Fund performance trends toward break-even with profits in businesses with negative equity (telephones and network) and losses in businesses with surplus equity (mail and copy). The exception is payroll, which is holding excess earnings until a decision is made on payroll outsourcing.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2002 Third Quarter Business Results (in Millions)</b>			
<b>TABLE I</b>			
<b><u>Business Line</u></b>	<b>3rd-Quarter Cumulative Earnings</b>	<b>3rd-Quarter Cumulative Business Expenses</b>	<b>3rd-Quarter Cumulative Net Earnings</b>
Supplies	\$2.5	\$2.5	\$0.0
Mail	\$1.6	\$1.9	(\$0.3)
Copying	\$1.5	\$2.1	(\$0.6)
Printing/Graphics	\$2.1	\$2.1	\$0.0
Building Occupancy	\$41.9	\$40.5	\$1.4
Telephones	\$5.0	\$4.8	\$0.2
Desktop	\$0.9	\$0.9	\$0.0
Network	\$4.7	\$4.1	\$0.6
Contract Closeout	\$0.5	\$0.5	\$0.0
Payroll Processing	\$2.3	\$1.1	\$1.2
CHRIS	\$1.6	\$1.1	\$0.5
On-Line Learn. Ctr.	\$0.2	\$0.2	\$0.0
<b>TOTAL</b>	<b>\$64.9</b>	<b>\$41.4</b>	<b>\$3.0</b>

\$ Specific differences in excess of \$50,000 are as follows:

- The Mail Business Line has negative net earnings of \$0.3 million through in the Third Quarter due to increased contract labor costs for internal mail delivery. We expect this level of loss for the full fiscal year, and the Fund Manager will be asking Board members for participation on a working group to work with business line officials to develop options to resolve these problems.
- The Copying Business Line has negative net earnings of \$0.6 million through the Third Quarter that are the result of prior year accruals (-\$0.4 million) that were discussed in the past Annual Report plus reduced earnings related to declining business at the staffed copy centers. The business has been using unobligated earnings from past years to offset these expenses.
- The Building Business Line has net earnings of \$1.4 million as a result of construction contracts that have been initiated (and billed to customers) but remain unfinished. These balances should not be considered as profits. Since the remaining expenses will be charged to future periods, including the fourth quarter of this year, these balances of uncoded obligations are not available for other uses.
- The Telephone Business Line has net earnings of \$0.2 million through the Third Quarter due to infrastructure savings. These balances are required to offset unearned amounts advanced to the business in FY 2001 and are not available for other uses.
- The Network Business Line has net earnings of \$0.5 million through the Third Quarter due to DOEnet cost savings. These balances are required to offset unearned amounts advanced to the business in FY 2001 and are not available for other uses.
- The CHRIS Business Line has cumulative net earnings of \$0.5 million that will be used in part for a large equipment purchase during the fourth quarter at NETL.
- The Payroll Business Line has cumulative net earnings of \$1.2 million due to avoided costs related to PeopleSoft implementation. These profits are being reserved pending the decision of whether and how to outsource payroll.

## II. Relation of Customer Payments to Anticipated Customer Billings

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund.
- By June we had collected virtually 100% of the estimated \$86.1 million in FY 2002 annual revenues (Table II). These amounts can be compared to Third Quarter collections of \$82.9 million in FY 2000 and \$86.1 million in FY 2001.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2002 Third Quarter Business Results (in Millions)</b>			
<b>TABLE II</b>			
<b><u>Business Line</u></b>	<b>Advances as of Third Quarter</b>	<b>Anticipated Full Year Costs</b>	<b>% Collected</b>
Supplies	\$3.5	\$3.3	106%
Mail	\$2.0	\$2.0	100%
Copying	\$2.1	\$2.0	105%
Printing/Graphics	\$2.8	\$2.8	100%
Building Occupancy	\$54.8	\$55.6	99%
Telephones	\$6.8	\$6.8	100%
Desktop	\$1.1	\$1.2	92%
Network	\$5.9	\$6.2	95%
Contract Closeout	\$0.7	\$0.7	100%
Payroll Processing	\$3.0	\$3.1	97%
Chris	\$2.9	\$2.2	132%
On-Line Learn. Ctr.	\$0.3	\$0.3	100%
<b>TOTAL</b>	<b>\$86.0</b>	<b>\$ 86.1</b>	<b>100%</b>

### III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by an estimated \$29.0 million by the end of the Third Quarter.

<b>WORKING CAPITAL FUND</b>					
<b>FY 2002 Third Quarter Business Results (in Millions)</b>					
<b>TABLE III</b>					
<b><u>Business Line</u></b>	<b>Prior Year Unexpended Advances</b>	<b>Current Year Customer Advances</b>	<b>Total Customer Advances</b>	<b>Year-to-date Obligations</b>	<b>Advances Remaining to be Obligated</b>
Supplies	\$-0.3	\$3.5	\$ 3.2	\$3.2	\$0.0
Mail	\$0.2	\$2.0	\$ 2.2	\$1.9	\$0.3
Copying	\$0.3	\$2.1	\$ 2.4	\$2.3	\$0.1
Printing/Graphics	\$0.2	\$2.8	\$ 3.0	\$1.8	\$1.2
Building Occupancy	\$0.8	\$54.8	\$ 55.6	\$40.0	\$15.6
Telephones	\$0.8	\$6.8	\$ 7.6	\$4.6	\$3.0
Desktop	\$0.6	\$1.1	\$ 1.7	\$1.0	\$0.7
Network	\$1.1	\$5.9	\$ 7.0	\$4.9	\$2.1
Contract Closeout	\$0.2	\$0.7	\$ 0.9	\$0.9	\$0.0
Payroll Processing	\$2.4	\$3.0	\$ 5.4	\$1.6	\$3.8
Chris	\$0.0	\$2.9	\$ 2.9	\$0.8	\$2.1
On-Line Learn. Ctr.	\$0.0	\$0.3	\$ 0.3	\$0.3	\$0.0
<b>TOTAL</b>	<b>\$6.3</b>	<b>\$86.0</b>	<b>\$ 92.3</b>	<b>\$63.3</b>	<b>\$29.0</b>

#### IV. Changes in Budget Estimates by Business Line and Customer

- \$ The \$3.5 million increase in the December 2000 estimate (for the FY 2002 Congressional Budget) was the result of adding DOENet charges and other small incremental increases that resulted during FY 2000 execution. Estimates in the June 2002 bill account for nine months of actual usage and indicate that usage has declined in mail, copy, and printing and graphics, offset by increases in building alterations, and price increases for mail security and virus protection as approved by the Board in the April Board Meeting. On an aggregate basis, the estimates for FY 2002 have remained almost level for over 18 months.

<b>FY 2002 Budget Estimates for WCF Businesses</b>		
Date	Process	FY 2002 Billing Estimate (\$Millions)
May 1999	FY 2002 Corporate Review	\$82.8
December 2000	FY 2002 Congressional Budget	\$86.3
May 2001	FY 2003 Corporate Review	\$86.2
December 2001	FY 2003 Congressional Budget	\$86.2
July 2002	June WCF Bill	\$86.1

#### V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

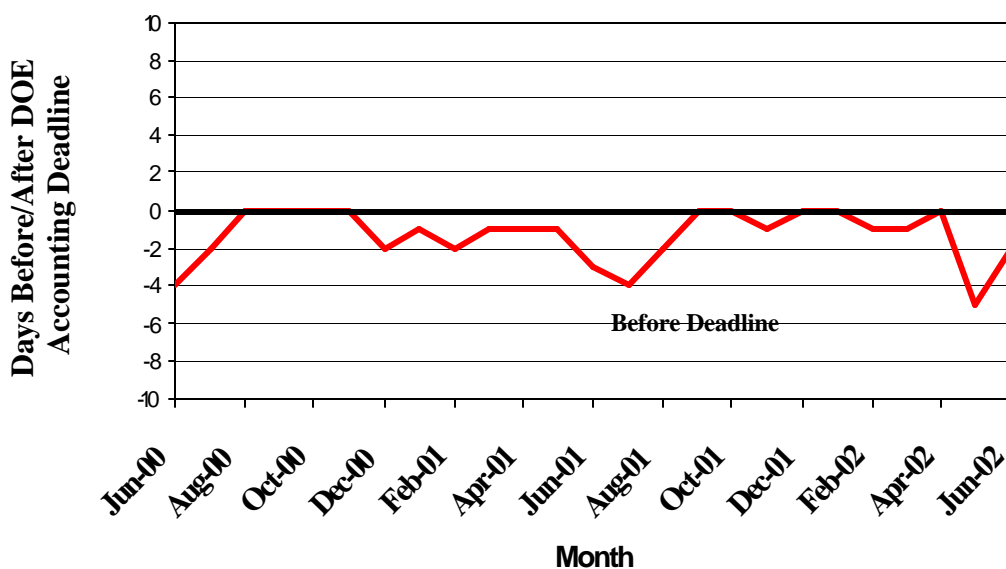
- As a result of mail threats and increased need for virus protection, the Board recently changed pricing policies and increased earnings for the Mail and Desktop businesses. As discussed above, there may be a need for further revisions in pricing policies or service levels for the Mail business line for FY 2003, and a working group will be formed to develop options for the Board. Otherwise, there are no other pricing policy changes expected before FY 2004. FY 2004 budget estimates include increases to phone and network business lines as a placeholder, subject to future approval by the Board.

## VI. Financial Management Systems Progress

### Working Capital Fund Billing System

- \$ The Working Capital Fund billing system continues to perform well, and all three monthly bills in the Third Quarter met the DISCAS cutoff dates. The following table presents the overall progress of the billing system in terms of timeliness.
- The Fund recently initiated a “paperless” billing process, which distributes monthly billing information to program customers through e-mail. Customer response has been overwhelmingly positive. While we have eliminated non-value added copying and mail distribution costs to the Fund Manager, we have also provided more timely and manageable information to our customers. We are committed to the success of this process and are interested in your continued satisfaction. Please let us know if you experience any difficulties.

### **WCF Billing Performance**



## VII. Performance Review

- Business Lines report that they are accomplishing goals and performance objectives for FY 2002 consistent with annual projections in recent five-year plans. We have every expectation to meet performance standards at the end of FY 2002.